
Week of October 25, 1999

Vol. XXVIII, #31, Pt. II, October 25, 1999

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Wage & Employment Growth Act H.R. 3081

Committees on Education & the Workforce and Ways & Means
No Report Filed
Introduced by Mr. Lazio *et al.* on October 14, 1999

Floor Situation:

The House is expected to consider H.R. 3081 sometime later this week. The Rules Committee has not yet scheduled a time to meet on the bill. Additional information on the rule and potential amendments will be provided in a *FloorPrep* prior to floor consideration.

Highlights:

Please Note: The following analysis is based on the text of H.R. 3081 as it was introduced. Last week, the Ways & Means Committee postponed a markup scheduled for October 21; it has yet to be rescheduled. Nevertheless, lawmakers are expected to make changes to the tax portion of the bill before floor consideration.

H.R. 3081 increases the minimum wage by \$1 over three years and provides approximately \$29.7 billion in tax relief over five years (many of these provisions are similar to H.R. 2488—the Taxpayer Refund and Relief Act—which President Clinton vetoed on September 23). Specifically, the bill:

- * increases the minimum wage from \$5.15 to (1) \$5.48 on April 1, 2000; (2) \$5.81 on April 1, 2001; and (3) \$6.15 on April 1, 2001;
- * includes measures designed to reform pensions and enhance retirement security. Specifically, the bill (1) increases portability of pensions so employees may “roll over” plans from one job to the next; (2) allows additional salary “catch-up” contributions for workers over age 50 (*i.e.*, individuals may deposit additional amounts into certain retirement accounts);

(3) accelerates vesting requirements for employer matching contributions; (4) increases contribution and benefit limits in pension plans; and (5) simplifies the pension system to help businesses offer or improve their plans;

- * reduces estate and gift taxes over a five-year period;
- * increases the deduction for health insurance of self-employed individuals to 100 percent beginning in 2001;
- * authorizes the HUD Secretary to designate 15 “renewal communities” in both urban and rural areas, allowing them to qualify for special tax incentives;
- * extends the work opportunity and welfare-to-work tax credits for 30 months through December 2001;
- * increases the business meal expense deduction to 60 percent in 2002 (from the current level of 50 percent);
- * includes a number of provisions to provide real estate tax relief; and
- * extends the disabled access credit to *any* business to subsidize the cost of bringing certain inter-city buses into compliance with the 1990 Americans with Disabilities Act.

Background:

In 1938, Congress enacted the Federal Labor Standards Act (FLSA), the primary federal statute dealing with the minimum wage and related issues. At the time of its inception, the minimum wage was considered a necessary wage floor, important for ensuring a responsible relationship between the worker and the employer. Over the years, it has become a controversial issue. There is a wide gulf between those who view a higher minimum wage as necessary to reducing poverty, and those who assert that it treads upon and reduces the efficiency of the market.

The federal minimum wage is set by statute. It remains at the statutory level unless specifically altered by Congress. Some states have minimum wage standards that are higher than that of the FLSA: where coverage overlaps, the higher standard normally prevails.

The law has undergone comprehensive amendment eight times: in 1949, 1955, 1961, 1966, 1974, 1977, 1989, and 1996. In 1977, Congress legislated a series of steps to increase the minimum wage for covered workers. The first increase to \$2.65 per hour took place on January 1, 1978; others followed through 1981. Throughout this period of mandated increases, inflation eroded the real value of the increase. The minimum wage fell below the real cost of living.

Congress included limited tax relief in the 1996 law (*P.L. 104-188*) to offset the \$1 increase in the minimum wage. Specifically, the law (1) increased expensing for small businesses; (2) modified the rules regarding Subchapter S corporations to make it easier for small businesses to expand; (3) established a new simplified pension plan for small businesses with fewer than 100 employees; (4) extended a number of

expiring tax credits; and (5) established charitable risk pools to allow organizations to pool insurance costs for their members in order to reduce premium costs. Finally, the measure established a \$5,000 tax credit to encourage a greater number of adoptions.

By the end of the 1990s, approximately 80 million workers were subject to the wage requirements of the FLSA, though most were actually paid substantially in excess of that rate. The general minimum wage under the FLSA, set by the 1996 FLSA amendments, is now \$5.15 per hour. In 1998, about 4.4 million wage and salary workers, paid on an hourly basis, earned at or below \$5.15 per hour, approximately 1.6 million at \$5.15 per hour, and roughly 2.8 million below \$5.15 per hour.

Debate Over the Minimum Wage

The debate over the minimum wage turns on this question: Does it lift the working poor out of poverty or lock them out of the job market?

Where is the Economic Calamity? On one side of the debate are supporters of increasing the minimum wage, who assert that the theory of supply and demand does not apply so neatly to the reality of labor markets. They note that higher wages often garner greater loyalty and effort. Payroll costs go up, but employers may gain productivity and reduced turnover, training, and recruitment costs. Employers who can't find reliable help are usually the ones paying the lowest wage possible.

In addition, supporters note, employment rates are influenced by a much more significant factor, the Federal Reserve. It is up to the Fed to let the economy grow at its most robust potential, which results in "full employment." In such a tight labor market, employers are able to absorb increased payroll costs. Of late, the Fed has raised interest rates on account of what it perceives as an "inflationary" labor market—that is, too many workers and not enough jobs. If this is the case, why not lift the wages of those at the bottom?

Employment inflation, in fact, takes place at the high end of the labor market; in the high technology sector, for example. Tight labor markets give high-wage, high-skilled employees more bargaining leverage with their employers, which can eventuate in inflation. The minimum wage, however, is targeted to low-skilled workers, who have little, if any, bargaining leverage.

Finally, supporters point to the last minimum wage increase, which was enacted in 1996. During this period, unemployment fell steadily, most significantly among minorities, teenagers, and individuals without college degrees—a far cry from the dire predictions of minimum wage opponents. This year, for example, the unemployment rate among black men fell to a record low level. Supporters note that 72 percent of

Minimum Wage Increases

Public Law	Date of Effect	Amount
(P.L. 75-718)	October 1938	\$0.25
	October 1939	\$0.30
	October 1945	\$0.40
(P.L. 81-393)	January 1950	\$0.75
(P.L. 84-381)	March 1956	\$1.00
(P.L. 87-30)	September 1961	\$1.15
	September 1963	\$1.25
(P.L. 89-601)	February 1967	\$1.40
	February 1968	\$1.60
(P.L. 93-259)	May 1974	\$2.00
	January 1975	\$2.10
	January 1976	\$2.30
(P.L. 95-151)	January 1978	\$2.65
	January 1979	\$2.90
	January 1980	\$3.10
	January 1981	\$3.35
(P.L. 101-157)	April 1990	\$3.80
	April 1991	\$4.25
(P.L. 104-188)	October 1996	\$4.75
	September 1997	\$5.15
Pending Changes	April 2000	\$5.48
in the Bill	April 2001	\$5.81
	April 2002	\$6.15

Source: Congressional Research Service

minimum wage workers are adults with family incomes about \$15,000 below the national average. A dollar-an-hour increase will put \$2,000 more a year in their pockets. Where is the economic calamity here?

Does the Minimum Wage Do More Harm than Good? On the opposing side of the debate are those—small businesses and the fast-food industry, for example—who believe that a government-mandated minimum wage distorts market forces of supply and demand: If the price of something is raised (in this case labor), people will buy less of it. Hence, if an employer has a set amount to spend on payroll, and the price of labor goes up, that fixed amount will be divided among fewer workers. Such effects are felt most acutely by small business owners, who can ill afford reductions in their slender profit margins.

Opponents of minimum wage hikes assert that forcing employers to cut their workforce causes a labor displacement effect, the brunt of which is invariably borne by low-skilled adults, who are the first victims of the employer's chopping block. Critics note that with most of the increases in the minimum wage since the 1960s, welfare rolls swelled. A Wisconsin University study of 1980s wage increases found that welfare mothers in states that raised the minimum wage stayed on welfare rolls 44 percent longer than their counterparts.

Critics contend that wages are inextricably tied to skills, that another increase will lock out from the workforce the very individuals such increases are designed to help: the poor and the low-skilled. U.S. Census Bureau figures show that the average income of minimum wage employees increases by 30 percent within one year of employment. This is why only 2.8 percent of employees above the age of 30 work at the minimum wage: as they accumulate skills, they get raises. Aside from its impact on low-skilled adults, opponents assert that another hike will dramatically increase the number of low-skilled teens who are out of school and unemployed. Employers substitute high-skilled teens when the price of labor goes up.

Opponents of minimum wage increases favor a tax incentive approach—the Earned Income Tax Credit (EITC), which benefits the working poor without affecting employer demand for workers. As candidate Clinton himself noted in 1992: “We can increase the earned income tax credit by a couple billion dollars a year and, far more efficiently than raising the minimum wage, lift the working poor out of poverty.”

Provisions:

— *FLSA Amendments* —

H.R. 3081 amends the 1938 Fair Labor Standards Act (FLSA) to increase the federal minimum wage by \$1 over three years. Specifically, the bill increases minimum wage from \$5.15 to (1) \$5.48 on April 1, 2000; (2) \$5.81 on April 1, 2001; and (2) \$6.15 on April 1, 2001.

The measure also amends the 1938 Fair Labor Standards Act to provide an exemption from minimum wage and overtime laws for certain “inside sales” employees, which the bill defines as people who work from within an employer's establishment to sell to customers using the telephone, fax, and computer. The bill extends this new exemption to any employee in a sales position if the employee (1) has specialized or technical knowledge related to the products or services being sold; (2) makes sales predominately to persons to whom the employee has made previous sales, which does not involve initiating sales contracts

entirely on cold calls; (3) receives an annual base compensation, regardless of the number of hours worked, of one and one-half times the minimum wage multiplied by 2,080. Wherever a higher state or local minimum wage prevails, the minimum compensation threshold will adjust accordingly; and (4) receives incentive compensation based on each sale made that is equal to at least 40 percent of the employee's minimum base compensation. Even if an employee receives a higher base wage, the minimum incentive compensation figure remains based on a proportion of the minimum base wage.

In addition, the measure exempts from minimum wage and overtime laws (1) funeral directors and licensed embalmers, and (2) computer professionals whose primary duties include systems and database analysis and design, as well as training or managing employees that perform such duties.

— *Estate and Gift Tax Relief* —

H.R. 3081 includes a number of measures to provide approximately \$16.3 billion in estate and gift tax relief over five years. These changes are outlined below.

The measure reduces the estate, gift, and generation-skipping transfer (GST) taxes over five years. Beginning in 2001, the bill replaces the unified credit with a unified exemption and repeals the five-percent surtax and rates in excess of 53 percent. Beginning in 2002, the bill repeals rates in excess of 50 percent. In 2003 and 2004, the bill reduces all estate and gift tax rates by one percentage point, and outlines a proportionate reduction in the state death tax credit. Finally, the bill makes a number of modifications to the GST tax prior to its repeal. These changes are similar to the provisions in H.R. 2488 (however, the taxes are reduced over five years, as opposed to a phased-in repeal over 10 years in the Taxpayer Refund and Relief Act).

The federal estate and gift taxes are a unified tax system: a transfer of wealth, whether made during the life of the donor or at death, is taxed under the same general structure. The unified estate and gift tax rates begin at 18 percent on the first \$10,000 in cumulative taxable transfers and reach 55 percent on such transfers over \$3 million. In addition, the government imposes a five-percent surtax on cumulative taxable transfers between \$10 million and the amount necessary to phase out the benefits of the graduated rates. Under the 1997 Taxpayer Relief Act (*P.L. 105-34*), the unified credit exempts \$650,000 in 1999, which increases to \$675,000 in 2000 and 2001, \$700,000 in 2002 and 2003, \$850,000 in 2004, \$950,000 in 2005, and \$1 million in 2006 and thereafter under changes enacted by the 1997 Taxpayer Relief Act.

The GST tax is designed to prevent an individual from transferring property to successive generations without being subject to the estate and gift tax for each generation. Current law provides a \$1 million exemption (indexed to inflation beginning this year) for each individual making generation-skipping transfers.

— *Small Business Tax Relief* —

H.R. 3081 provides approximately \$5.5 billion in small business tax relief over five years. These changes are outlined below.

Self-Employed Health Insurance Deduction. H.R. 3081 increases the deduction for health insurance (as well as qualified long-term expenses) of self-employed individuals to 100 percent beginning in 2001.

This provision modifies current law, which does not phase in full deductibility of health insurance expenses for self-employed individuals until 2003. Under current law, individuals may deduct 60 percent of their health insurance expenses in 1999 through 2001, 70 percent in 2002, and 100 percent in 2003.

Increase in Section 179 Expensing. The bill increases the small business equipment expense deduction to \$30,000 annually beginning in 2001. Current law phases in a \$25,000 deduction limit over five years, reaching this level in 2003; small business taxpayers currently may deduct \$19,000.

Business Meal Deduction. The measure increases the business meal expense deduction to 55 percent in 2001 (from the current level of 50 percent) and to 60 percent in 2002. The bill also accelerates the phase-in for this deduction for individuals subject to Transportation Department hours-of-service limitations. Under current law, the deduction is scheduled to increase from 55 percent in 1999 to 80 percent in 2008. The bill increases the deduction to 80 percent beginning in 2001.

Occupational Taxes. The bill repeals occupational taxes on distilled spirits, wine, and beer for retailers, wholesalers, and producers. Under current law, the producers and marketers of these alcoholic beverages must pay an annual tax (between \$250 and \$1,000 per premise) on July 1 of each year.

— *Pension Reforms* —

H.R. 3081 outlines measures designed to reform pension systems and enhance retirement security. These provisions provide approximately \$4.5 billion in tax relief over five years and are similar to the Taxpayer Refund and Relief Act (although the bill includes a number of new minor provisions). These measures are outlined below.

Expanding Coverage. The measure increases contribution and benefit limits in tax-favored retirement plans. Specifically, the bill (1) increases the \$30,000 annual contribution limit for defined contribution plans to \$40,000; (2) increases the \$130,000 annual benefit limit under a defined benefit plan to \$160,000; and (3) increases the \$160,000 compensation limit to \$200,000. The bill also extends the “Roth IRA” concept (*i.e.*, depositing after-tax contributions to receive tax-free distributions) to 401(k) and 403(b) plans (otherwise known as “tax-deferred annuities”) whereby participants may elect to have salary deferrals treated as after-tax contributions.

Beginning in 2001, the bill increases the dollar limit on annual elective deferrals under section 401(k) plans, tax-deferred annuities, and salary reduction simplified employee pension plans (SEPs) in \$1,000 annual increments until the limits reach \$15,000 in 2005. Beginning in 2001, the proposal increases the maximum annual elective deferrals that may be made to a SIMPLE retirement account in \$1,000 annual increments until the limit reaches \$10,000 in 2004. The measure increases the dollar limit on deferrals under a section 457 plan (*i.e.*, an eligible deferred compensation plan of a state or local government or tax-exempt employer) to conform to the elective deferral limitation. Thus, the limit will be \$11,000 in 2001 and continue to increase in \$1,000 annual increments until it reaches \$15,000 in 2005. The above limits will be indexed annually thereafter in \$500 increments.

In addition, the bill (1) modifies and simplifies “top-heavy rules”; (2) stipulates that elective deferral contributions will not be considered when calculating deduction limits; (3) repeals coordination requirements for section 457 plans of state and local governments and tax-exempt organizations; (4) eliminates IRS user fees for determination letter requests by small employers; (5) increases the minimum benefit safe harbor

under defined benefit plans; and (6) reduces PBGC premiums for small and new plans. The bill makes a number of other minor changes.

Enhancing Fairness for Women. The measure also (1) allows additional salary reduction “catch-up” contributions for workers over age 50 (*i.e.*, individuals may deposit additional amounts into certain retirement accounts); (2) accelerates vesting requirements for employer matching contributions; (3) provides equitable treatment for contributions to defined contribution plans by eliminating “percentage of compensation” limits; (4) simplifies and updates minimum distribution rules that apply to tax-favored plans; and (5) clarifies the tax treatment on the division of section 457 plans upon divorce.

Portability. The measure increases portability of retirement assets so employees may roll over such assets from one job to the next. Specifically, the bill allows individuals to roll over eligible distributions from qualified retirement plans, tax-deferred annuities, and section 457 state and local governments plans. In addition, the bill allows employees to roll over after-tax contributions into another qualified plan in a direct rollover, or to an IRA. Finally, the bill (1) expands spousal rollovers; (2) allows pension plans to eliminate unnecessary distribution options; (3) allows employers to disregard rollovers for purposes of cash-out rules; (4) allows employees to access benefits from 401(k) plans, tax-deferred annuities, and section 457 plans after “severing employment” rather than “separating from service” (*i.e.*, allows distributions when an employee continues in the same job after a merger); (5) allows a hardship exception to the 60-day rollover rule; and (6) allows the use of tax-deferred annuity and section 457 plan assets to purchase service credit in government-defined benefit plans.

Pension Security. The bill phases in the repeal of the current 150 percent contribution limit to defined benefit plans by 2004. Present law contributions to plans that exceed 150 percent of current liability are not tax-deductible (this limit will phase up to 170 percent by 2003). In addition, the bill expands the missing participant program to include defined contribution plans to allow individuals to locate 401(k) money they may have left with a previous employer. The bill also provides excise tax relief for sound pension funds and requires plan administrators to notify recipients of significant reductions in future benefits. The measure includes a number of other provisions designed to allow companies to better fund their plans and strengthen disclosure requirements.

Regulatory Burdens. H.R. 3081 includes a number of provisions designed to simplify the pension system to help small businesses offer, and large employers improve, their pension plans. Specifically, the bill (1) allows employers to reinvest employee stock ownership plan dividends without losing the dividend deduction; (2) extends the notice and consent period regarding distributions to allow individuals to plan for and request pension distribution further in advance; (3) simplifies annual filing requirements for pension plans with fewer than 25 employees; (4) repeals several complex regulatory tests required of employers; (5) directs the Treasury Secretary to modify mechanical nondiscrimination requirements to provide additional flexibility; (6) clarifies the tax treatment of employer-provided retirement planning services; (7) modifies the timing of plan valuations; and (8) clarifies the status of church welfare plans under state insurance laws. Finally, the bill makes several other miscellaneous changes.

— *Community Renewal* —

H.R. 3081 provides approximately \$745 million in tax relief over five years to distressed communities and industries. These provisions are similar to the Taxpayer Refund and Relief Act, except that the bill allows the designation of 15, instead of 20, renewal communities.

Community Renewal. H.R. 3081 authorizes the HUD Secretary to designate 15 “renewal communities” in both urban and rural areas, allowing them to qualify for special tax incentives (at least three must be in rural areas). The bill requires the secretary to adhere to certain eligibility criteria and procedures when designating these communities. These provisions are designed to create jobs, stimulate investment, and assist families in impoverished neighborhoods. In addition to their special designation, renewal communities will receive additional tax incentives over a seven-year period from 2001 through 2007. They include:

- * **100-percent Capital Gain Exclusion.** H.R. 3081 eliminates capital gains taxes on the sale of any qualified stock, business property, or partnership interest located within renewal communities that have been held for at least five years and that are acquired after December 31, 2000, and before January 1, 2008.
- * **Family Development Accounts.** The bill establishes family development accounts (FDAs), tax-exempt accounts that allow taxpayers to deduct up to \$2,000 for amounts paid in cash to FDAs to benefit “qualified persons”—a person who both lives in the renewal community during the tax year and claims the earned income tax credit in the preceding tax year. In addition, other individuals may deduct up to \$1,000 annually to benefit a qualified person. FDAs are designed to encourage low-income families to save a portion of their income or their earned income tax credit refund.

Cash donations are deductible, even if the individual does not itemize, while withdrawals are tax-free if used for a qualified purpose (*i.e.*, post-secondary educational expenses, certain first-home purchases, certain business capitalization costs approved by a financial institution or by a nonprofit loan fund, or medical expenses). The measure allows certain qualifying tax-free rollovers of FDA amounts into other accounts to benefit an individual (or a spouse or dependent).
- * **Commercial Revitalization Deduction.** H.R. 3081 allows taxpayers to claim a “commercial revitalization deduction” (*i.e.*, an up-front deduction of 50 percent of the cost of renovation or a 100 percent deduction for such costs spread over 10 years) for efforts to build or refurbish commercial-use buildings in renewal communities during a seven-year period between 2001 and 2007. Deductions may equal up to \$10 million per location. In addition, states may allocate up to \$6 million in deductions to each renewal community in the state annually during the seven-year period.
- * **Additional Section 179 Expensing.** The measure raises the maximum allowable expense deduction for purchases of plant and equipment in renewal communities from \$25,000 to \$35,000. Businesses in areas with dual-designations may deduct up to \$55,000 (\$20,000 of additional expenses under current law empowerment zone provisions, and \$35,000 in expenses under renewal community provisions). Deductions may be applied to property valued at up to \$200,000 and will be phased out proportionately as the property’s value exceeds that amount.
- * **Expensing Environmental Remediation Costs (“Brownfields”).** H.R. 3081 permits taxpayers to expense costs incurred in mitigating the impact of environmental contaminants within a designated renewal community. This provision applies to expenditures incurred between 2001 and 2007.

- * **Work Opportunity Tax Credit (WOTC).** The bill provides the WOTC to employers who hire individuals who live and perform most of their work in a renewal community. In addition, should the WOTC expire, businesses located in renewal communities may qualify for a 15-percent tax credit on first year wages (up to \$10,000) paid to low-income workers. The credit increases to 30 percent on second-year wages.

Reforestation Expenses. Beginning in 2001, the bill increases the cap on expenses eligible for the reforestation credit from \$10,000 to \$25,000 per taxable year (from \$5,000 to \$12,500 for a separate return by a married individual) and eliminates the cap on expenses eligible for seven-year amortization during 2001-2003.

— Extension of Expiring Provisions —

Welfare-to-Work Tax Credit. H.R. 3081 extends the welfare-to-work tax credit for 30 months through December 31, 2001, providing approximately \$272 million in tax relief. The provision provides employers with a credit on the first \$20,000 of eligible wages paid to long-term welfare recipients during their first two years of employment. The credit equals 35 percent of the first \$10,000 of eligible wages paid in the first year, and 50 percent of the first \$10,000 in wages paid during the second year. The maximum employer benefit allowed is \$8,500 per employee. A qualified long-term employee includes family members who (1) have received assistance for at least 18 consecutive months ending on the hiring date; (2) have received assistance for a total of 18 months or more after August 5, 1997 (whether consecutively or not) if they are hired within two years after the date that the 18th month of assistance is reached; and (3) are no longer eligible for assistance because of either federal or state time limits.

Work Opportunity Tax Credit (WOTC). The measure extends the WOTC for 30 months through December 31, 2001, providing approximately \$1.1 billion in tax relief. This credit generally equals 40 percent (25 percent for employment of fewer than 400 hours) of qualified wages, which includes compensation earned during the first year of employment. Generally, the credit allows a maximum of \$6,000 of wages per person during the first year of employment. Target groups for employers to hire from include (1) individuals eligible to receive welfare benefits; (2) certain ex-felons who are hired within one year of their release from prison or conviction date; (3) high-risk youth; (4) individuals between 18 and 25 years of age whose families have received food stamp assistance for at least six months at the time they are hired; (5) vocational rehabilitation referrals; (6) qualified summer youth employees; (7) certain veterans who receive food stamps; and (8) recipients of certain SSI benefits.

— Real Estate —

H.R. 3081 includes a number of measures to provide approximately \$669 million in real estate tax relief over five years. These provisions are detailed below.

Real Estate Investment Trusts (REITs). The bill makes several modifications to the rules governing REITs. Specifically, the measure (1) prohibits REITs from owning more than 10 percent of the total value of securities of a single issuer; (2) permits REITs to own and operate a health care facility for at least two years; (3) modifies REIT distribution requirements to conform to regulated investment companies (RICs); (4) modifies earnings and profit rules for REITs and RICs; and (5) establishes rules for computing the permitted ownership of an independent contractor for a REIT when its stock is publicly traded.

REITs are companies dedicated to owning and, in most cases, operating income-producing real estate (e.g., apartments, shopping centers, office complexes, and warehouses). Some REITs also are engaged in financing real estate. A REIT is legally required to pay virtually all of its taxable income (95 percent) to its shareholders on an annual basis. REITs may deduct the dividends paid to the shareholders from its corporate tax bill if the company's assets are primarily comprised of real estate held for the long term, the company's income is mainly derived from real estate, and the company pays out at least 95 percent of its taxable income to shareholders. Because REITs may deduct the dividends they pay to their shareholders, they are, in substance, treated as pass-through entities under present law.

Private Activity Tax-Exempt Bonds. H.R. 3081 accelerates the scheduled increase in the limits on tax-exempt private activity bonds to \$75 per resident or \$225 million if greater (the current limits through 2002 are \$50 per resident or \$150 million if greater) beginning in 2004 (under current law, the increase will not be effective until 2007). Interest earned on state- and municipally-issued bonds may be excluded from general income if the bond proceeds fund activities conducted and paid for by localities. Interest on such bonds used to finance activities carried out and paid for by private persons (*i.e.*, "private activity bonds") is taxable unless specifically exempted by the tax code. However, private activity bonds on which interest may be tax-exempt include bonds for (1) privately operated transportation facilities (airports, mass transit, and high speed rail systems); (2) privately owned and/or provided municipal services (water, sewer, solid waste disposal, and electric and heating systems); (3) economic development in depressed areas; and (4) certain social programs (low-income rental housing, student loan bonds).

Low-Income Housing Tax Credit. The bill phases-in an increase in the \$1.25 per capita cap for the low-income housing credit to \$1.75 and indexes it to inflation beginning in 2004. The credit may be claimed over a 10-year period for the cost of rental housing occupied by tenants that have incomes below certain levels and is available for newly constructed or substantially rehabilitated housing.

Mortgage Obligations. The measure exempts taxpayers from including in gross income any mortgage amount forgiven by a lender if the proceeds of their home sale are insufficient to satisfy the qualified outstanding mortgage. The provision responds to situations where homeowners discover that their outstanding mortgage exceeds the value of their home. Generally, homeowners who are forced to sell their home for less than the amount of the outstanding mortgage must find additional funds to pay off the lender for the shortfall. In some situations, the lender may forgive the shortfall as an accommodation to the homeowner. However, if the lender forgives the shortfall, current law requires the former homeowner to pay taxes on the portion of the mortgage forgiven by the lender. Current law treats this forgiven debt as if it had been paid to the former homeowner by the lender.

— *Miscellaneous Provisions* —

Disabled Access Credit. H.R. 3081 extends the disabled access credit to *any* business (as opposed to only certain small businesses under current law) to subsidize the cost of bringing certain inter-city buses into compliance with the 1990 Americans with Disabilities Act (ADA; *P.L. 101-336*). The bill authorizes a credit of 50 percent of the eligible access expenses that exceed \$250 and up to \$30,250 (the maximum credit may not exceed \$15,000 per bus). Current law provides a tax credit for certain small businesses that pay for the cost of complying with the ADA. These eligible small businesses may not have more than \$1 million in revenues or 30 full-time employees. The current law credit equals 50 percent of the access expenses that exceed \$250 and up to \$10,250 (the maximum annual credit is \$5,000). This provision provides \$11 million in tax relief over five years.

Education Benefits. The measure excludes from gross income certain educational benefits provided by an employer to the child of an employee. Specifically, the bill allows up to \$2,000 per year of educational benefits to be treated as a qualified scholarship and therefore excluded from gross income (based on certain conditions). This provision provides \$74 million in tax relief over five years.

Film and Television Production. The bill establishes a credit equal to 20 percent of the first \$20,000 in wages paid annually to an employee of a qualified U.S. independent film and television production. This provision provides \$659 million in tax relief over five years.

Costs/Committee Action:

The Joint Committee on Taxation estimates that the tax provisions outlined in the bill will cost \$429 million in FY 2000 and \$29.7 billion over the FY 2000-2004 period.

The bill was not reported by a House committee.

Other Information:

For information on the Taxpayer Refund and Relief Act, see *Legislative Digest*, Vol. XXVIII, #19, Pt. II, July 19, 1999; and #23, Pt. IV, August 4, 1999.



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